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S. H. KRESS & COMPANY

ANNUAL REPORT

1953

Raleigh,
North Carolina

S. H. KRESS & COMPANY

BUYING-EXECUTIVE OFFICES

114 FIFTH AVENUE, NEW YORK 11, N. Y.

Directors

S. H. KRESS

R. H. KRESS — H. S. BOWERS

C. G. TRAMMELL — O. V. W. HAWKINS

H. L. SPENCER

Officers

S. H. KRESS
Chairman of the Board

R. H. KRESS
Vice Chairman of the Board

C. G. TRAMMELL
President

R. F. GARRITSON
Vice President

E. H. RHODES
Vice President

C. L. ABRY
Vice President

E. F. SIBBERT
Vice President

C. M. FUNK
Vice President and Treasurer

O. V. W. HAWKINS
Vice President and Secretary

W. M. WEAVER
Assistant Treasurer

L. K. GUILER
Assistant Treasurer

A. F. GUERBER
Assistant Secretary

C. H. WILLIAMSON
Assistant Secretary

D. C. WELLS
Controller

C. M. SKADE
Assistant Controller

General Counsel: DUER, STRONG & WHITEHEAD, New York, N. Y.
Transfer Agent: BANKERS TRUST COMPANY, New York, N. Y.
Registrar: CHEMICAL BANK & TRUST COMPANY, New York, N. Y.

OPERATIONS AT A GLANCE

RECEIVED:	*Amount 1953*	*Cents Per Dollar 1953*	*1952*
Sales to customers	$172,979,646	99.6	99.7
Rental of property, interest, etc.	668,225	.4	.3
Total amount received	$173,647,871	100.0	100.0
PAID OUT:			
Merchandise, rent and operating expenses other than taxes, wages and salaries and employe benefits	$116,895,585	67.3	67.3
Taxes paid to Federal, state, county and municipal governments (not including taxes paid by the Company for employe Social Security benefits)	12,837,536	7.4	7.3
Wages and salaries and other employe benefits paid to:			
All employes other than officers — $32,593,308			
Officers — 625,914			
Retirement pension and group life insurance contributions — 827,866			
Social Security taxes — 841,368			
Total	34,888,456	20.1	20.2
Dividends paid to stockholders	7,055,022	4.1	4.0
Total amount paid out	$171,676,599	98.9	98.8
BALANCE:			
Earnings retained for use in the business	$ 1,971,272	1.1	1.2

S. H. KRESS & COMPANY

February 2, 1954

To the Stockholders of S. H. Kress & Company:

THE ANNUAL REPORT of S. H. Kress & Company for the year ended December 31, 1953, together with comparative statements of earnings and financial condition, certified by Price Waterhouse & Co., independent public accountants appointed by the Board of Directors, is submitted herewith.

Ten Year Comparative Record of sales, earnings, and dividends is shown following the Accountants' Report.

Sales

Total sales for the year were $172,979,646, which was $3,261,930 or 1.9% less than in 1952. Decrease was due partly to the loss of the Calexico, Calif. store, which was destroyed by fire in December 1952 and reopened in September 1953, and to the loss of sales volume at several other stores while undergoing enlargement and modernization. Average sales per store amounted to $660,228 in 1953 as compared with $677,852 in 1952.

Earnings

Net earnings for the year, after deducting Federal income taxes, amounted to $9,026,294 or $3.84 on each of the 2,351,674 shares of common stock outstanding.

The 1952 earnings amounted to $9,140,842 or $3.89 on each share of common stock outstanding.

The reduction in earnings in 1953 resulting from the decline in sales volume was offset in part by lower operating expenses. Every effort is being made to further reduce expense ratios in relation to sales. The possibilities of self-service and other new and improved methods of merchandising are being tested and based on the results thus far it is anticipated that changes adopted will have a favorable effect upon both sales and operating costs in the future.

Dividends

Dividends paid in 1953 amounted to $3.00 per share of common stock, the same as paid in 1952.

Wages and Salaries

Wages and salaries paid to all employes, including officers and directors, amounted to $33,219,222 in 1953.

Special year-end payments were again made to all employes other than executives, and consisted of a Christmas Bonus and a Length of Service Compensation payment. These payments amounted to $519,496 compared with $493,946 paid in the previous year.

Wages, salaries and other employe benefits for 1953 totaled $34,888,456 or 20.1¢ of each dollar received.

Taxes

Federal income taxes on earnings from operations for 1953 amounted to $9,880,000, compared with Federal income and excess profits taxes of $9,950,000 for 1952.

Total taxes paid by the Company in 1953 amounted to $13,678,904 or $5.82 per share of common stock as compared with net earnings from operations of $3.84 per share. Taxes paid by the Company amounted to 7.9¢ of each dollar of merchandise sold during the year.

In addition to these direct taxes the Company, as agent for Federal, state and local governments, collected from customers excise and sales taxes totalling $6,485,673 or 3.8¢ per dollar of sales, for transmittal to the various taxing authorities.

Inventory

On December 31, 1953 inventories of merchandise on hand and in transit amounted to $31,269,668 compared with $29,539,817 at the end of 1952. In accordance with the established practice of the Company, inventories were valued at average cost or market, whichever is lower, and were computed by the retail inventory method.

The increase in inventories of merchandise on hand and in transit was due, in part, to new, enlarged and modernized stores opened or reopened during the year and to the fact that merchandise ordinarily shipped during the early part of January was shipped during December. Inventories at the end of 1953 consisted of well-balanced stocks of merchandise in all price lines.

New Stores—Future Expansion

At the end of the year there were 262 stores in operation, two more than the number in operation at the end of 1952. The store at Calexico, Calif., completely destroyed by fire in December 1952, was rebuilt and opened for business in September 1953. In November a new store was opened in Raleigh, N. C., a city in which the Company had not operated previously.

The Company continued with its program of modernizing and expanding established stores. Stores in the following cities were enlarged or modernized:

ABERDEEN, WASH.	DOUGLAS, ARIZ.
AUGUSTA, GA.	NOGALES, ARIZ.
COLUMBIA, S. C.	PORTLAND, OREG.

SUMMIT, N. J.

In 1953 purchases of land and expenditures for buildings, fixtures and equipment, totaled $5,140,605.

Plans for future expansion include two stores now under construction in new locations and scheduled to be opened during the year. One new store will replace an existing unit and six stores will be expanded and modernized. In addition a number of stores will be modernized.

Shareholders

At the end of 1953 the Company had 9,174 registered shareholders, of whom 905 were employes of the Company, as compared with a total of 9,065 shareholders on December 31, 1952.

Personnel

The directors and officers of our Company again wish to acknowledge the loyal and sincere cooperation shown by the men and women associated with the Company. It has been a long established practice of our Company to provide employes with the opportunity for training and advancement. The success of this principle is reflected in the increasing number of employes with long service records.

During the year the Company paid particular recognition to 54 employes who completed 25 years of service in 1953. By the end of the year 268 employes had service records of 25 years or more; 1,299

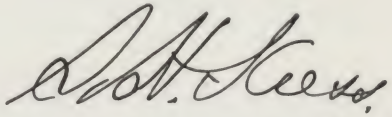
employes have been associated with the Company for 10 or more years.

For many years it has been the policy of the Company to encourage employes who have shown outstanding interest in the Company's growth and development and have made earnest efforts to secure their advancement with the Company to acquire a proprietary interest in the Company through the purchase and ownership of Company stock. An Employes' Stock Purchase Plan was adopted by the Board of Directors in February 1953 and approved by the stockholders at the annual meeting on May 12, 1953. The plan provides that 150,000 shares of the Company's authorized but unissued common stock are reserved for issue and sale to employes.

The management of our Company remains confident that the abilities and resourcefulness of the entire organization will accept the challenge of the highly competitive and active period ahead.

Suppliers

During 1953 greater demands were made upon manufacturers and suppliers for improved values in existing lines of merchandise and for the development of new lines to meet the requirements of Kress customers. The response of suppliers and manufacturers was wholehearted and complete. The Company will continue to direct its efforts to better selection and greater values during the years to come. The success of these efforts will depend to a large degree on the continued cooperation of manufacturers and suppliers, a large number of whom have been associated with the Company for many years in serving the needs of our customers.



CHAIRMAN

S. H. KRESS & COMPANY

Statement of Earnings

	Year Ended December 31. 1953	1952
SALES	$172,979,646	$176,241,576
Rental received from tenants	525,405	537,760
Interest received, etc. (net)	142,820	37,055
	173,647,871	176,816,391
Deduct:		
Cost of merchandise sold and operating expenses	151,629,947	154,815,316
Provision for depreciation and amortization	2,334,557	2,199,290
Provision for employes' retirement pension plans	777,073	710,943
Provision for Federal taxes on income	9,880,000	9,950,000
	164,621,577	167,675,549
NET EARNINGS FOR YEAR	9,026,294	9,140,842
Deduct:		
Dividends paid ($3.00 per share)	7,055,022	7,055,022
EARNINGS FOR THE YEAR RETAINED FOR USE IN THE BUSINESS	$ 1,971,272	$ 2,085,820

S. H. KRESS & COMPANY

ASSETS	December 31, 1953	1952
CURRENT ASSETS:		
Cash	$ 15,078,685	$ 15,672,005
U. S. Government securities, at amortized cost (market value December 31, 1953 $8,110,973)	8,112,475	9,042,686
Sundry debtors	169,890	853,873
Inventories of merchandise, including merchandise in transit, at lower of average cost or market	31,269,668	29,539,817
Total current assets	54,630,718	55,108,381
OTHER ASSETS:		
Loans and advances to landlords and miscellaneous notes receivable	381,090	459,692
Prepaid insurance premiums, rents, etc.	539,966	707,541
Total other assets	921,056	1,167,233
CAPITAL ASSETS:		
Fixtures and equipment, at cost	22,609,204	21,482,344
Less—Provision for depreciation	14,939,563	14,244,936
	7,669,641	7,237,408
Leasehold improvements, at cost	22,716,632	22,541,324
Less—Provision for amortization	11,200,888	10,910,186
	11,515,744	11,631,138
Land and buildings owned in fee, at cost in cash and capital stock	54,900,871	51,313,661
Less—Provision for depreciation	14,717,226	13,553,332
	40,183,645	37,760,329
Total capital assets	59,369,030	56,628,875
GOODWILL	1	1
	$114,920,805	$112,904,490

Statement of Financial Condition

LIABILITIES	December 31, 1953	December 31, 1952
CURRENT LIABILITIES:		
Accounts payable—trade creditors and merchandise in transit	$ 2,598,730	$ 2,629,529
Accrued salaries and expenses, and miscellaneous accounts payable	6,967,342	6,923,464
Federal taxes on income	10,203,554	10,171,588
Total current liabilities	19,769,626	19,724,581
CAPITAL:		
Capital stock:		
Special preferred stock—6% cumulative —		
Authorized—1,000,000 shares of $10 each		
All issued shares reacquired for treasury		
Common stock without par value—		
Authorized—2,678,787 shares		
Issued—2,357,574 shares	48,511,253	48,511,253
(Common stock reserved for sale to employes—150,000 shares)		
Accumulated earnings retained for use in the business	46,758,443	44,787,173
Less—Cost of 5,900 shares of common stock reacquired	118,517	118,517
	46,639,926	44,668,656
Total capital stock and accumulated earnings	95,151,179	93,179,909
	$114,920,805	$112,904,490

NOTE: At December 31, 1953 the Company was obligated under 140 leases expiring after December 31, 1956, some of which require, in addition to the minimum rentals now being paid, payments of additional rentals based on sales, and payments of real estate taxes, maintenance and insurance. The aggregate amount charged against operations for the year 1953 under all leases was $3,061,460.

ACCOUNTANTS' REPORT

PRICE WATERHOUSE & CO.

56 PINE STREET
NEW YORK 5

February 2, 1954

To the Stockholders of S. H. Kress & Company:

We have examined the statement of financial condition of S. H. Kress & Company as of December 31, 1953 and the related statement of earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of S. H. Kress & Company at December 31, 1953, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Ten Year Comparative Record

OF SALES, EARNINGS, AND DIVIDENDS

Year	*No. of Stores*	*Sales*	*Earnings Before Federal Taxes on Income*	*Federal Taxes on Income*	*Net Earnings After Federal Taxes on Income*	*Net Earnings Per Share of Common Stock*	*Dividends Paid Per Share*	
							Common	*Preferred*
1944	243	$127,955,060	$20,034,632	$14,300,000	$ 5,734,632	$2.25	$1.60	$ .60
1945	244	126,038,945	16,687,280	11,675,000	5,012,280	2.13	1.60	(a)
1946	242	150,926,508	20,785,531	8,000,000	12,785,531	5.44	4.20	—
1947	243	155,359,900	20,572,077	7,900,000	12,672,077	5.39	3.50	—
1948	250	165,366,617	20,638,578	7,800,000	12,838,578	5.46	4.25	—
1949	256	163,923,437	16,148,204	6,100,000	10,048,204	4.27	3.00	—
1950	259	161,657,149	20,946,641(b)	8,900,000	12,046,641(b)	5.12(b)	3.00	—
1951	259	172,390,827	20,111,936(c)	10,100,000	10,011,936(c)	4.26(c)	3.00	—
1952	261	176,241,576	19,090,842	9,950,000	9,140,842	3.89	3.00	—
1953	262	172,979,646	18,906,294	9,880,000	9,026,294	3.84	3.00	—

(a) All issued shares of 6% Special Preferred Stock reacquired in December 1944.

(b) Includes restoration of excess provision for Federal taxes on income for prior years amounting to $700,000 or 30¢ per share.

(c) Includes restoration of depreciation taken in prior years, less Federal taxes, amounting to $675,171 or 29¢ per share.

KRESS STORES

ALABAMA (13)
- Anniston
- Bessemer
- Birmingham
- Dothan
- Ensley
- Gadsden
- Huntsville
- Mobile
- Montgomery
- No. Birmingham
- Prichard
- Selma
- Tuscaloosa

ARIZONA (5)
- Douglas
- Nogales
- Phoenix
- Tucson
- Yuma

ARKANSAS (6)
- Blytheville
- Fort Smith
- Helena
- Hot Springs
- Little Rock
- Pine Bluff

CALIFORNIA (44)
- Alhambra
- Anaheim
- Bakersfield
- Berkeley
- Calexico
- El Centro
- Eureka
- Fresno
- Glendale
- Hollywood
- Huntington Park
- Inglewood
- Long Beach
- Los Angeles (11)
- Modesto
- Oakland
- Pasadena
- Pomona
- Richmond
- Riverside
- Sacramento
- Salinas
- San Bernardino
- San Diego
- San Fernando
- San Francisco (2)
- San Jose
- San Pedro
- Santa Ana
- Santa Barbara
- Santa Monica
- Santa Rosa
- Stockton

COLORADO (7)
- Boulder
- Colorado Springs
- Denver
- Grand Junction
- Greeley
- Pueblo
- Trinidad

FLORIDA (14)
- Daytona Beach
- Jacksonville (2)
- Key West
- Lakeland
- Miami
- Miami Beach
- Orlando
- Pensacola
- St. Petersburg
- Sarasota
- Tampa
- West Palm Beach
- Ybor City

GEORGIA (14)
- Albany
- Americus
- Athens
- Atlanta (2)
- Augusta
- Brunswick
- Columbus
- La Grange
- Macon
- Rome
- Savannah
- Valdosta
- Waycross

HAWAII (4)
- Hilo
- Honolulu
- Lihue
- Wailuku

IDAHO (3)
- Boise
- Idaho Falls
- Pocatello

ILLINOIS (2)
- Cairo
- Rockford

KANSAS (13)
- Arkansas City
- Chanute
- Coffeyville
- Emporia
- Fort Scott
- Hutchinson
- Independence
- Iola
- Lawrence
- Parsons
- Pittsburg
- Salina
- Wichita

KENTUCKY (3)
- Ashland
- Hopkinsville
- Winchester

LOUISIANA (6)
- Alexandria
- Baton Rouge
- Lake Charles
- Monroe
- New Orleans
- Shreveport

MISSISSIPPI (9)
- Biloxi
- Greenville
- Hattiesburg
- Jackson (2)
- Laurel
- Meridian
- Natchez
- Vicksburg

MISSOURI (6)
- Carthage
- Jefferson City
- Moberly
- Nevada
- Trenton
- Webb City

MONTANA (2)
- Billings
- Great Falls

NEW JERSEY (2)
- East Orange
- Summit

NEW MEXICO (2)
- Albuquerque
- Roswell

NEW YORK (4)
- New York City (4)

NORTH CAROLINA (14)
- Asheville
- Charlotte
- Durham
- Fayetteville
- Gastonia
- Goldsboro
- Greensboro
- High Point
- New Bern
- Raleigh
- Rocky Mount
- Salisbury
- Wilmington
- Winston-Salem

OHIO (1)
- Youngstown

OKLAHOMA (15)
- Ardmore
- Bartlesville
- Blackwell
- Chickasha
- Enid
- Guthrie
- Lawton
- McAlester
- Muskogee
- Oklahoma City
- Okmulgee
- Ponca City
- Sapulpa
- Shawnee
- Tulsa

OREGON (2)
- Portland
- Salem

PENNSYLVANIA (1)
- Altoona

SOUTH CAROLINA (8)
- Anderson
- Charleston
- Columbia
- Florence
- Greenville
- Greenwood
- Spartanburg
- Sumter

TENNESSEE (10)
- Bristol
- Chattanooga
- Elizabethton
- Jackson
- Johnson City
- Kingsport
- Knoxville
- Memphis
- Nashville (2)

TEXAS (36)
- Amarillo
- Austin
- Baytown
- Beaumont
- Brownsville
- Corpus Christi
- Corsicana
- Dallas (2)
- Del Rio
- Denison
- Eagle Pass
- El Paso
- Fort Worth
- Gainesville
- Galveston
- Greenville
- Harlingen
- Hillsboro
- Houston (3)
- Laredo
- Longview
- Lubbock
- Paris
- Port Arthur
- San Angelo
- San Antonio (2)
- Sherman
- Texarkana
- Tyler
- Waco
- Waxahachie
- Wichita Falls

UTAH (3)
- Ogden
- Provo
- Salt Lake City

VIRGINIA (1)
- Roanoke

WASHINGTON (12)
- Aberdeen
- Bellingham
- Bremerton
- Everett
- Seattle (4)
- Spokane
- Tacoma
- Wenatchee
- Yakima

Total—262 Stores in 29 States and the Territory of Hawaii

Summit,
New Jersey

Calexico,
California

Columbia,
South Carolina

KRESS